DAVENPORT'S ECONOMICS AND THE PRESENT PROBLEMS OF THEORY

SUMMARY

I. Davenport's Economics is in the direct line of succession of the classical treatises on economics, 417. — II. The book essentially classical in scope and method, 419. — III. The chief departure from classical method in the greater significance ascribed to the entrepreneur, 422. — IV. Competing concepts of marginality: contradictions in Davenport's usage, 424. — V. Inadequacy of the concept of value as a mathematical ratio for the analysis of the problems of price and value of money, 430. — VI. Production identified with acquisition, 437. — Bearing of this amalgamation of concepts upon the problems of functional and personal distribution, 438. — VII. Social implications of Davenport's system of economic theory, 443.

I

Such recent writers as have sought to reopen theoretical controversies have commonly manifested a desire to change the scene of action, thus tacitly implying that nothing new could come from a renewal of the old debates. Sombart and Veblen and their followers have addressed themselves to the task of substituting for the accepted mechanistic economics a genetic science, constructed after the analogy of the biological sciences. Anderson and Cooley and other social value theorists are endeavoring to divert the attention of economists from the older issues to an examination of the forces underlying the so-called utility curve, which we are beginning to realize is not a utility curve at all, but a curve of possible choices, or, objectively speaking, values. No such treacherous shifting of ground appears in Davenport's *Economics of Distribution.*[1] Davenport

[1] The Economics of Enterprise. By Herbert Joseph Davenport. New York. The Macmillan Company, 1913. 544 pp.

takes his stand in the center of the ancient field of controversy, as a champion of the law, despite his manner of grisly revolutionary. Once more we pass in review the familiar doctrinal antithesis of value as ratio and value as substance; cost as pain and cost as opportunity foregone; margins as fixing prices and margins as fixed by price; capital as productive factor and capital as distributive category; interest determined by productivity and interest determined by a discounting process. Once more we are to subject to analysis the nature of imputation, and to examine the bearings of complementarity and substitution. The theory of entrepreneurship and profit is overhauled again, as are also the theories of credit and crises. This enumeration of problems might be greatly extended; but it is already clear enough that we have in Davenport's book a remarkable congregation of issues that are classical but are still far from being closed. And not merely by number of issues raised is Davenport provocative of thought. He woos his reader with a club more often than with soft words; accordingly he forces you to subject to re-examination doctrines you had always cherished until you found them in Davenport's arsenal. With most contributions to contemporary economic theory one agrees or disagrees, and there is an end of the matter. With the present book, whether one agrees or disagrees the matter does not end. It is therefore safe to say that a generation hence this work will find its place in the list of writings with which all adepts in economic theory are expected to be familiar. And it is also safe to say that it will be subjected to the same merciless exposure of inner inconsistencies by which authority has been stripped from the great writers of the classical period. The present paper is offered as an early contribution to this anticipated literature of exposure.

II

The title of Professor Davenport's book, the *Economics of Enterprise,* is intended to express succinctly the author's conception of the problem. "Enterprise" signifies, not a definite part of the economic life of the present, but essentially the whole of the current system. The justification for such an extension of the meaning of enterprise is to be found, if at all, in the dominant position of the entrepreneur in modern economic life. Entrepreneurship in Davenport's sense is a very broad term; it covers the activities of "the independent, unemployed manager; the one who carries the risks and claims the gains of the enterprise" (p. 67). Every person who buys goods or services for the purposes of production or sale, or who employs his own goods or physical powers in production for sale, or even for his own consumption, is thus an entrepreneur. Wherein, then, does the economics of enterprise differ from plain economics? Evidently in that the former does not concern itself with economic life in times or places in which production for sale is unknown, or at least exceptional. In so far the substitution of "economics of enterprise" for "economics" is merely a formal gain. Classical and neo-classical economists have made few incursions into primitive life; and there is little ground for supposing that such incursions will be more numerous in the future. There was no pressing need for Davenport's flaming sword to keep us out of so laborious an Eden.

In one further respect the choice of title serves to restrict the field of economic analysis. Any realities that lie behind the phenomena of exchange value are unknowable to the entrepreneur and hence to the eco-

nomics of enterprise. The calculations of the entrepreneur can at best take such realities for granted. An excellent example of these irrational realities is the standard of living. A favorite mode of disposing of the standard of living is to treat it as a force affecting the supply of labor, and hence affecting wages, or, according to the more recent formula, affecting productivity immediately and wages ultimately. This is all that Davenport is able to make of the standard of living (*cf*. pp. 2, 450–452) and it is all that the majority of economic writers, including the reviewer himself, have ever made of it. And yet are we not aware of the fact that in most bargaining for labor there is a considerable margin between seller's minimum and buyer's maximum, and that the course of the negotiations is likely to be affected by even the personal appearance of the worker ? In domestic service, for example, one applicant for a position carries herself like a duchess, and on first sight of her the employer's maximum tends to rise. Another carries herself like an abject serf; unconsciously the employer shears a considerable fraction off the maximum. Is it not a plausible hypothesis that the collective stiffening of the necks of laborers which a rising standard implies must have an immediate effect upon the terms of distribution ? But even if we could be certain that the standard of living operates only through its effect upon supply of labor, we should not be absolved from the necessity of investigating the nature of the standard and the forces that cause it to rise or sink.

Again, there are phenomena in the field of commodity values for which the economics of enterprise can offer only a formal solution that advances the inquiry practically not at all. On Chesapeake Bay, thirty years ago, sturgeon's roe sold at five cents a pound; today

the same material is sent to France, where it is properly sophisticated and artistically packed for its return to this country as caviar, worth, perhaps, ten dollars a pound. Of course every one knows that the rise in value, so far as it is not due to exhaustion of sources and to cost of preparation, must be ascribed to the extraordinary vogue of caviar as an article of fashionable consumption. The chief part of a scientific explanation of the rise in price of sturgeon's roe consists obviously in setting forth the origin of the vogue of caviar, the circumstances in which it developed, the limitations under which it now stands. We may, of course, translate the problem into terms of an equilibrium of demand and supply, or into the more seductive terms of a balancing of utility and cost, but such translation sheds not the least light upon the real problem of the rise in price of caviar.

In limiting himself to the field of the economics of enterprise, Davenport thus excludes from his purview all the problems of value and distribution that are refractory to the supply and demand analysis, that persist in all their original perplexity despite their subjugation under supply and demand equations. In the work under review such problems are deliberately excluded, as in the classical system they were automatically excluded by the limitations of the method of analysis. Doubtless the classical economists believed that the problems excluded are of less practical importance than the problems to which their method is applicable; and this, one suspects, is Davenport's view. This question of relative importance, however, is one that is not easily settled. We have heard much in recent years, from Professor Veblen and his followers, of the futility of the "taxonomic" treatment of economic problems. We have also heard much of the

other-worldly character of the "genetic" economics of the Veblen school. The controversy has, however, hardly passed beyond the stage of mutual recrimination. Accordingly we may most safely content ourselves with the recognition that neither method appears to be adequate to the solution of all problems classed as economic by universal consent.

III

It has already been indicated that Davenport's economics falls into the same category with the classical and the Austrian, as to both scope and method. In so far as it presents a variation upon the classical method, this consists in its faithful observance of a self-imposed rule that all economic phenomena must be viewed from the entrepreneur's angle of vision. Hence a quite special emphasis upon price, rather than upon value; upon entrepreneur's costs, rather than upon "subjective" or "social" costs; upon capital as an acquisitive category rather than as a productive factor. Primary importance is everywhere assigned to pecuniary relations, while technological relations are relegated to a subordinate position. All this is, of course, in accord with the trend of orthodox economics. But orthodox economics never attained the degree of conscious concentration upon its final purpose that has been achieved by Davenport.

In classical and neo-classical economics, entrepreneurship has figured chiefly as a pervasive reality which, once admitted in the premises, may then be dropped from the field of vision. In every labor contract, in every arrangement for the borrowing of capital or the purchase or sale of commodities, entrepreneurship has been assumed to be functioning. Yet in the more

logical systems, as for example, that of Professor Clark, the function of the entrepreneur, unlike those of the laborer and capitalist, may be exercised without reward, and would necessarily be exercised without reward in a state of perfect competition. It has been recognized that the choices of the entrepreneur set the whole productive mechanism in motion. But these choices, according to the usual view, are mere matter of calculation, and involve no element of will or of feeling. An entrepreneur is offered, for one dollar, material that promises to be worth two dollars in the conduct of his enterprise. He chooses, indeed, to take it; but the choice is, in a sense, determined. The entrepreneur's existence as an economic man depends upon his acceptance of every opportunity to better himself, even in the least degree, by his choices. Accordingly, it is not to the choices themselves that orthodox economics looks for an explanation of price changes, but to the forces that determine the respective magnitudes of the items offered for choice. Davenport manifests a tendency to infuse a more substantial existence into the entrepreneur. In his earlier work, *Value and Distribution*, as well as in later writings, he has defended the doctrine that the margin of significance in price determination is not an " instrument margin," but an " entrepreneur margin." It is not the cost of wheat on marginal land, but the cost of wheat to the marginal entrepreneur that stands in the most intimate relation to price. We find a reminiscence of this doctrine on pages 80–81, where it is asserted that all margins are personal. As " marginality " is here defined to be nothing but choice, the position is impregnable. No one supposes that land or instruments make choices for themselves. It is another question whether marginality so defined is a concept that can serve any useful purpose in eco-

nomic theory. It is to be noted that wherever Davenport makes practical use of the concept of marginality, he passes beyond entrepreneur's choices to the circumstances determining them. If, on page 80, margins are declared to be personal, on page 82, where margins are used for purposes of explanation, they are not personal margins at all, but good neo-classical land margins and instrument margins. Accordingly it still remains to be proved that the entrepreneur ought to be given a more active rôle than that entrusted to him by orthodox theory. In spite of himself, Davenport leaves the entrepreneur without effective discretion. The economics of enterprise remains pure economics.

IV

When Austrian value analysis first came into vogue the loyal adherents of the classical school attacked it vigorously on the ground that an exaggerated potency in value determination was ascribed to margins. Every student can recall Professor Macvane's declaration that value determines marginal utility, instead of being determined by it. A similar opinion, but extended to all margins, is voiced by Davenport: "The margins are the points *at* which, and not *by* which, the price is fixed; all items of supply and all items of demand are, actually or potentially, equally causes in the adjustment" (p. 54). The same idea is expressed in its most general terms on page 95. "The total situation is directive of each individual in it." It finds concrete expression in the conundrum (p. 95): let one imagine himself jumping "on a crowded raft and sinking with it; does he sink the others, or do they sink him?" Davenport's own solution is evidently that the total situation sinks the raft, in spite of the fact that most

of the total situation floated very well until the irresponsible marginal man dropped upon it.

And yet there is obviously some justification for this attack upon marginal causation. The price of wheat may conceivably rise so high that women will glean the fields for ears, as in the days of Ruth. And will it be said that the high price of bread is fixed *by* the cost of gleaning ? Or will it be said that prices are fixed *at* the cost of gleaning ? Either proposition is harmless and futile. The true explanation of the high price will run in terms of over-crowded population or exhausted land, drouth or flood, war or pestilence. Or, as Davenport would say, in terms of the " total situation."

It follows, then, that if margins have any significance in price determination, this significance must be derived from the facts of economic life, not from arbitrary premises. Would a reduction in the price of wheat result in the abandonment of a few stony hill-tops that added merely a negligible increment to supply, or would it result in the withdrawal of a vast acreage from wheat cultivation, and thus force the price back to its old level, or near it ? If the latter, there is such a thing as effective marginality of land, land that will command its price, or wreak vengeance upon the price structure. Effective marginality is, of course, very far from a device adequate to the explanation of all persistence of price levels; but that it is an extremely important part of such explanation no one would deny. Davenport himself makes very frequent use of the principle. Prices, he tells us (p. 70), " are influenced by cost by virtue of the fact that there are always enough marginal men in any competitive production to bring about a reduction of the supply, if the relative advantages of the industry appear likely to suffer." That is, whatever influence upon prices is exerted by cost of production is exerted

through marginality. In the light of this broad doctrine, what are we to say of the principle that prices are fixed *at* the margin, not *by* the margin ?

It is because of an unexpressed desire to rest his analysis upon effective margins that Davenport emphasizes opportunity cost, rather than subjective and absolute cost. The last hour of work in a cotton mill may be so irksome as just to balance the wages earned in that hour. Here then is marginal labor. Cut wages, and possibly the workers will demand a reduction of the working day, solely for the purpose of escaping this unremunerative hour. The case, however, lacks verisimilitude. Not so with another hypothetical case. Let us say that many of the workers are earning barely enough to keep them from deserting to other employments. Cut wages, and they desert. The last and most painful hour to all the workers may be called marginal labor, but it is practically devoid of potency for controlling wages or prices. The labor of men on the point of changing their employment may also be called marginal labor. This has an obvious potency for the control of prices and wages.

The case is similar with utility margins. To say that price is determined by marginal utility, or that it measures marginal utility, is of course meaningless. If by marginal utility is meant the least satisfaction that is actually derived from the consumption of a good, the proposition is untrue. A corporation magnate often gets less satisfaction out of a Carolina Perfecto than a coal heaver gets out of a Henry George. Let cigars rise, and it is the Henry George that is sacrificed, the greater utility, not the less. Davenport, to be sure, offers no such attack as the above on marginal utility as a determinant of price. According to his philosophy, we can know nothing of the satisfactions of either

corporation magnate or coal heaver. But the rest of us, realizing our common humanity, are sure we can know.

But if marginal utilities in their absolute character are either unknowable or of no price-determining potency, the same is not true of relative marginal utilities, as Davenport calls them, or subjective values, as they are called by economists who refuse to identify value with ratio in exchange. The coal heaver may not be able to tell us how much satisfaction he derives from a Henry George, but he can tell us how much more satisfaction he derives from it than from a glass of milk. It is these relative utilities or values alone that count in making up the demand curve. Of these it may properly be said that some are marginal. And here again we have the distinction between a margin that is determined by price and a margin that may determine price. Let the price of bread rise, and some of us may merely tighten our belts and murmur. Others of us will eat potatoes or corn-meal porridge. Here are two margins, and it is a question, not of logic but of fact, which counts. There can be little doubt that it is the latter, or margin of substitution, that is chiefly significant in price determination.

We have, then, two conceptions of marginality, one of which may be described as logical, the other as effective. Logical marginality may attach to any unit of supply or any unit of demand; effective marginality attaches to particular units, determinable by fact and circumstance. Recurring to Davenport's analogy of the raft, the mathematician may safely indulge himself in curious speculation as to whether it is the last man who sinks the raft, or the first man, whose presence so burdens the raft that the last man will sink it. This is not the sort of speculation that men indulge in when in

the presence of an emergency. The first man on the raft rejoices in its excess carrying capacity and is quite unconcerned about his own weight. He welcomes a second for his companionship, and a third. With ten on the raft an additional recruit is viewed with anxiety; with fifteen, the sixteenth man is regarded with hostility; and as to the fatal seventeenth, if he is not shot or clubbed to death before he gets on board, it is because none of the others have weapons. And similarly, when we debate the restriction of immigration, we do not dissolve into philosophical inquiries as to whether it is the new increment to the population, or the population already here, or the total situation, that reduces wages. We strike at the effective margin, and thus defend our standard of life.

It is not to be denied that the margin as a premise of formal logic may for certain theoretical purposes be more available than the effective margin. The formulae of mathematical economics do unquestionably illuminate the problems of price and these formulae can have nothing to do with effective margins. All that mathematical economics needs is intersecting curves; on this basis it can establish the equilibria that are its sole ends. Even here, be it noted, margins are by no means the fly on the wheel, buzzing "what a dust I raise," as Davenport would have us believe (p. 95). Total demand set against total price can give a determinate price only by virtue of the intersection of curves, or in other terms, by the establishment of margins. Say that in the theoretical horse market six buyers appear, each with a maximum of $200 that he will pay rather than fail of securing a horse; six sellers appear, each with a reserve price of $100. Total demand will evidently equal total supply, but what will the price be? All that we can say is that it will be above $100 and

below $200. There cannot be even a mathematical solution of the problem of price without the assumption of a margin of greater significance than Davenport's analysis establishes.

Mathematical economics, as Professor Schumpeter showed clearly in his *Wesen und Hauptinhalt der theoretischen Nationalökonomie,* has nothing to say on questions of action. It is most successfully cultivated by those who have the most shadowy interest in practical affairs. Davenport is not of this number; his sole object in writing of economic theory is to provide a more general basis for practical judgment than detailed study of concrete problems can afford. Hence his attitude toward the marginal concept of mathematical economics, which he introduces only for the purpose of displaying his aversion to it. Effective margins he employs persistently and successfully, without, however, recognizing them explicitly as such or establishing satisfactorily his right to employ them, in view of his criticism of the general principle of marginality.

Altho Davenport makes frequent use of the principle of effective marginality, his reluctance to recognize it has seriously handicapped him in his analysis of its consequences. The classical economists, and many of their present day disciples, have made much of the distinction between price-determined and price-determining items of outlay, or incomes. Davenport rejects the distinction. The mathematical economist, dealing with margins only as logical premises, is justified in rejecting this distinction. The economist who employs the principle of effective margins, and seeks to establish a basis for practical action, is not so clearly justified in rejecting it. As it is by virtue of effective marginality that factors in production exert an active influence in price determination, it follows that factors not in a

position of marginality can exercise no active influence. The cranberry bog that can be used for nothing else cannot hold up the consumer of cranberries for its rent. If it yields a rent, this is because other circumstances fix a price which makes possible the payment of rent. It is sufficiently clear that no broad category of incomes, such as rents in general or interest or wages in general, is to be regarded as price determined or price determining. Practically every class of incomes that can be named consists of a mass of price-determined income, protected, as it were, by a vanguard of price-determining income. If the vanguard is weak, taxation or other encroaching forces may with a fair degree of impunity make inroads upon the mass of price-determined income. That Davenport draws practical conclusions from the principle of price-determined income, in spite of his repudiation of it, is indicated by his enthusiastic espousal of the policy of confiscating ground rent (p. 496).

V

"The market value of any given thing is the exchange relation in which, quantitatively stated, it stands to some other one thing, quantitatively stated" (p. 236). Thus does Davenport introduce his discussion of value, and with only a slip here and there, holds resolutely to this definition throughout. It is the familiar classical concept of value as a ratio, and the fact that it has satisfied the demands of so many keen thinkers, and has served as a basis for so vast a volume of fruitful analysis, will justify its continued use.

There is, however, another concept of value, which has gained a considerable degree of currency in recent years. This is the quantitative concept of value, according to which value is a quality infused into an

object by men's needs or purposes, measurable by its control over the action of the ordinary individual, or possibly over the action of society. To those who define value in relative terms, the fact that two objects exchange on even terms is final proof that at this particular time and place the two values are equal. To those who define value in quantitative terms, the facts of a single exchange may signify nothing as to values. True, there is a tendency for exchange ratios to assimilate themselves to values; but the assimilation is a process requiring time. It is obvious enough that we have in these competing value concepts another instance of the differences in method between the mathematical and the realistic economists. Our author chooses to enroll himself with the former school, exercising therein a liberty that it is indefeasibly his right to exercise.

It is not, however, too much to say that Davenport transcends this sphere of personal rights when he asserts that value cannot be a quantity. Value as defined by himself cannot be, and this is about all his criticism of the quantitative concept amounts to (*cf.* pp. 242 *et seq.*). So far as he goes beyond this impregnable position, it is to dwell upon the difficulty of finding an unvarying measure. "What does it mean to assert that a horse in America has less value than a horse in China" (p. 241)? It does mean something, and the proof of it is that in China a man who owns a horse is numbered among the lords of the earth, while a man who owns a horse in Missouri may be a negro farm hand. Was decent burial of greater value in ancient Greece than in modern Greece? To be sure it was, and the proof of it is that a man's kin would give their lives to preserve his dead body from the birds and dogs, and be counted heroes for it. In modern Greece an Antigone would be shut up in a lunatic asylum.

But Davenport urges that weight can be measured only with reference to a heavy object; heat with reference to an object that is hot. And the inference is that value can be measured only with reference to a valuable object. Now, values are ever changing; measurement is therefore uncertain. Let us remember, however, that the race — and the individual — first learned about weight through lifting objects, and became alive to heat through the burning of fingers; and there are still millions of persons who have no more scientific methods of determining weight and heat than immediate experience. The negro in Africa knows that a bag is heavy either by lifting it or by observing other men's bending backs and trembling knees. All that can justly be said in criticism of the concept of value as quantity is that we have no more reliable measure of it than immediate experience or observation of the behavior of other persons. But certainly value may be conceived as a quantity in spite of this inconvenience of measurement, just as weight is weight in equatorial Africa, and bends backs and stiffens joints as effectively as if every African were an official sealer of weights and measures.

Davenport's refutation of the quantitative value concept consists, then, partly in a begging of the questions at issue, partly in a substitution of the *ratio cognoscendi* for the *ratio essendi*. These are, of course, well tried and highly valued weapons of economic controversy, and it would be unfair to Davenport to deny him the use of them. The real test of a concept is, after all, pragmatic. If the relative concept of value is adequate to all the purposes of economic analysis, this is all that is needed to cut the ground from under any competing concept. For of no other concept of value can it be said that it alone is adequate to all theoretical

needs. As Davenport has not attempted to establish the universal adequacy of his value concept, it is clearly no part of the reviewer's duty to carry the inquiry into fields not falling within the boundaries of the system under review. It is, however, pertinent to inquire how far the concept meets the requirements of Davenport's own system.

Of the concepts bearing upon value and price, Davenport explicitly admits (1) total utility; (2) marginal utility — "desiredness" (p. 86); (3) cost, conceived essentially in terms of opportunity foregone, hence in utility terms; (4) value, equivalent to ratio in exchange; (5) price, a special form of value as above defined. There is further mention of the concept "relative marginal utility" (p. 93) and a reluctant acceptance of the fact that it is only through "relative marginal utility" (subjective value) that either total utility or marginal utility can have anything to do with price.

That this concept of "relative marginal utility" is of more importance in Davenport's system than his cursory mention of it would suggest is easily established. Price determination is a matter of equation of demand and supply, and this signifies graphically an intersection of the curves of demand price and supply price. Now, what are the elements that figure in these curves? Marginal utilities? Davenport would be the last to accept this view. Ratios of exchange? Except for one particular point in the curve, they are ratios at which exchange does not take place.

It is open to the author to say that his curves of demand and supply are constructed upon a basis of relative marginal utilities, or relative desiredness. The only exception that can be taken to such a disposition of the matter is the cumbersomeness of the terms. What they cover is a quality, quantitatively measurable,

capable of expression in intelligible terms. This is the quality that is termed *Werth* or value by the theorists who treat value as a quantity. It is the assertion of these theorists that ratios of exchange cannot be explained without reference to it. This claim Davenport appears to reject in principle, but concedes in practice.

Why should we not confine the term value to ratio in exchange, and adopt the term "relative marginal utility" to describe the quantitative value concept, thus ending all the controversy that now makes warring schools of otherwise like-minded men? Value as ratio of exchange comes into existence only when exchanging actually takes place. I set out to buy a horse; the horse as yet has no value; at the instant of "meeting of minds" between the seller and me, the horse has a value of $200; but the next instant, it is again valueless. If at any time all men should become so well satisfied with the things they have that no exchanging could take place, all values would disappear. There are, as we know, economists who thus ride their value concept into the very jaws of annihilation. It is no great loss, in view of the fact that the concept has never been the private property of any language, and never will be.

But a more serious objection is that such a terminology leads to the assumption that analysis has reached rock bottom when it is really resting upon quaking mud. Relative marginal utility — what can appear more solid than this? In reality, however, it is a substance partly of feeling, partly of judgment, containing elements of individual purpose as well as elements of social influence. A buyer's "reservation price" may have something to do with availability for personal consumption; it may have something to do with his observation of other men's actions; it may reflect an

estimate of future current prices, or represent a reminiscence of past prices. To leave the concept of "relative marginal utility" unanalyzed is to renounce the possibility of solving many important problems of economics. Notably, problems of money and crises.

According to pure quantity theory, the medium of exchange is always adequate to effect exchanges that represent net gains in utility. According to experience, this is not true; monetary stringencies, both local and universal, occur. The theory which treats value as a quantity has no difficulty in explaining these stringencies: the value of money is a structure built up out of a mass of feelings and judgments resting upon the past and the future as well as upon the present. This structure may at any moment of time be out of harmony with the structure of goods values, similarly built up. From this point of view there is nothing astonishing in the fact, especially in evidence during post-panic depressions, that the holders of money place so high a value on it that they will not offer it for goods at the price necessary to command them, and that the holders of goods place so high a value upon them that they will not sacrifice them for the money price they will fetch. The theory of crises based upon value as a mere ratio and upon the corresponding explanation of price naturally leads to the inference that the phenomena of a depression must be fully registered in the low level of prices. This, however, every one knows is not true; the sluggish movement of commodities, rather than the decline in prices, is the striking fact.

Now, it is interesting to observe that in his discussion of money and crises — an extraordinarily able and illuminating discussion — Davenport's method is that of the realistic, value-as-quantity theory, not that of the mathematical, value-as-ratio theory. The whole

discussion runs in terms of processes requiring time, not in terms of timeless, mathematical equilibria. The quantity theory of money is valid at the end of the process, not at any point of time chosen at random.

Even so moderate a view of the quantity theory has been severely criticised, and Davenport endeavors to give full weight to facts out of harmony with it. In one case he goes to the extreme of admitting facts that are purely imaginary. In an endeavor to show how newly mined gold affects the level of prices, he suggests that the influence is first felt in the price of gold used in the arts. The steps in his reasoning are as follows: At any given time the volume of bank currency is determined, not by the volume of reserves, but by the volume of acceptable paper offered for discount. Now, the new gold goes first to the mints and thence into the reserves. This does not increase the amount of acceptable paper; hence the volume of credit circulation remains unchanged, as, by hypothesis, does also the amount of specie in circulation. There can accordingly be no direct effect upon the level of prices. Reserves become plethoric, and " the change in general prices is initiated in the non-monetary market for gold " (p. 317).

The argument would be entirely valid if the gold originated in the blue sky, not in mines operated by men eager to spend or invest the proceeds of their industry. As it is, when the gold goes into the bank reserves, the fact is recorded by the crediting of deposits — an addition to pre-existing deposits — which are pretty certain to function as active purchasing power. And this functioning is prerequisite to any increase in the employment of gold in non-monetary uses, unless we are to assume that bankers are in the habit of carrying their plethoric gold reserves to the goldsmiths and trading them for rings and watch-cases.

VI

The key to Davenport's theory of distribution is his definition of capital. This is " a durable, objective source of valuable private income " (p. 162). On first inspection this definition appears to exclude goods in process of manufacture and mercantile stocks, since these do not answer very well to the description of " durable sources." But Davenport's conception of durability is broad enough to include persistence through any perceptible time. The definition is couched in these terms not for the purpose of excluding anything that has ever been included under capital, but for the purpose of extending the application of the term to the so-called acquisitive capital — spendthrift loans, monopoly privileges, vested blackmail — as well as to what economists have been accustomed to describe as productive capital. Labor is defined in correspondingly broad terms. The beggar on the street corner, we are repeatedly assured, is performing labor and his takings are wages. Productivity is defined as equivalent to proceeds. It is worth noting that so rigorous a definition is not adhered to throughout. On page 494 we are told that much of the product of society reaches its final recipients through gift. This is meaningless if the beggar on the street corner produces his income.

What is sufficiently clear is that if we desire to confine ourselves to a description of distribution as it is, we shall be forced to limit ourselves, as Davenport seeks to do, to the categories of rights and proceeds. The lender's income is immediately dependent upon the loan contract, not upon the productivity of capital; the net income from mortgaged property is related to the " equity," not to the physical property; wages are related to the wages contract, not to labor. On this

plane there is no room for a distinction between acquisitive and productive capital; between productive and unproductive labor. Distribution viewed in its immediacy presents many problems of great interest: economic problems concerning the nature and origin of the respective claims upon income; moral problems concerning their ethical justification. There are honest incomes from monopoly shares, and from slave-driving, man-killing colonial exploitations, just as there are crooked incomes from bread making and milk pasteurizing. In fact, most, if not all, the moral economic problems emerge upon this plane.

It is self-evident that none of the methods of traditional economics will serve the purposes of investigating the economic and moral problems of distribution in its actuality. What we need here is a genetic method. But this method our author, in common with most theoretical economists, is either unable to use or consciously repudiates. If Davenport were not possessed of the courage to transcend the limits of his own written constitution whenever he pleases, we should have to record here a definition of distribution and nothing further. As it is, after a number of fratricidal attacks upon other economists for setting themselves the problem of functional distribution, he sets himself the same problem and performs valuable service toward its solution.

Functional distribution, as we all know, concerns itself not with the rights upon which private incomes are legally founded, but with the underlying forces that attach returns to specific services, of persons or of material goods. A functional return is inevitably bound up with certain classes of land; with artificial instruments of production; with certain forms of labor. To functional distribution it matters not in the least

whether these returns are enjoyed by demons or angels, by private persons or by the state. Functional distribution concerns itself with the inevitableness of returns, not with the morality of incomes. Essentially it is ethically colorless. Except that the various classes of returns may exert varying dynamic influences upon the future welfare of society; on which ground we may rejoice in the progress of one class and regret that of another. Functional distribution, then, may throw light upon certain questions of social expediency, and hence may have a bearing upon morals in becoming, tho obviously none upon morals in being.

The two doctrines of distribution have so much terminology in common that it is not surprising that few, if any, economists have been able to fence them off completely from each other. They have been permitted to mix, and their mixing has given rise to a whole breed of recalcitrant and infertile hybrids, incapable of being killed by overwork. Of such hybrids the doctrine of the "unearned increment" is an excellent example, the former element of the combination resting on the plane of personal distribution and its moral corollaries, the latter on the plane of functional distribution and its imagined corollaries of social expediency. Of such hybrids Davenport has a goodly number, as one might anticipate from his crossing of doctrines.

In his treatment of functional distribution, Davenport is essentially a productivity theorist. It is true that he denies that wages, interest, rent and "necessary profits" are the only expenses of production; additional categories, such as the costs of insurance, taxes, advertising, must be added. There never has been any disposition on the part of productivity theorists to deny the existence of such expenses. Some of them, as advertising expenses, may easily enough be reduced to

the traditional categories; others, such as taxes, have commonly been regarded as phenomena of secondary distribution, like gifts and bequests. It would probably be conducive to doctrinal clearness to treat some of these expenses as independent distributive categories. More fundamental is our author's criticism of the traditional categories on the ground that they embrace many elements that are not generically related. Functionally those productive elements that stand in a competitive relation to one another, instead of a complementary relation, properly constitute a single "factor in production." Now, unskilled labor does not normally compete with managerial labor, but is complementary to it; agricultural lands are complementary to factory sites; raw materials are complementary to machinery. All this may be granted, except perhaps that in the case of goods that are reproducible, complementarity gives way to competition in the disposition of replacement funds. A milking machine, we are told (p. 419), does not compete with a mowing machine; and this is obviously true. But both will wear out, and funds for replacement will compete for the greatest return. With this qualification, the proposal to constitute a legion of factors in production instead of three or four may be accepted as indicative of a method whereby the fruitfulness of economic theory may be vastly increased.

It is true that Davenport appears often to place himself squarely in opposition to the productivity theorists; but the opposition is chiefly terminological. Productivity, we are told, differs with different entrepreneurs (p. 148). This is, of course, true of "total productivity," whatever that may mean, but it is hardly true of marginal productivity, if competition is doing its work. This is admitted on page 140, where it is said of the entrepreneur that "paying as little as he must, com-

petition will ordinarily compel him to pay all that he can." Davenport's doctrine continually wavers; at one point he is misled by the deceptive analogy of the consumers' surplus (p. 145); at another, by a confusion of the marginal entrepreneur with marginal entrepreneurship (p. 146); at still another point by the equivocal meaning of productivity. Since the productivity of any agent of production may vary according to differences in entrepreneurs (and, by the way, with all other differences in complementary agents) there can be no such thing as specific productivity, but only relative productivity (p. 153). Now, the reason for coining the term "specific productivity" was to escape the absolute connotation of the term "productivity." An examination of the conditions defining the term specific productivity, as used by Professor Clark, would show that it means precisely what Davenport means by relative productivity.

In his explanation of interest Davenport offers powerful support to the productivity cause. Essentially the value of reproducible capital is traced to an opportunity cost basis. "The creation of equipment requires the diversion of productive power away from the service of immediate consumption" (p. 376). Some part of capital, then, has a foundation for its value that is independent of the value of its fruits. It thus becomes logically possible to assume that, with capital value given, the rate of interest may be found by reducing the value product of the capital to a percentage of the parent wealth. A follower of Professor Fisher would no doubt say that this interest theory rests chiefly upon the principle of inferiority of present to future in provision for wants. One who follows through the author's ingenious discussion of the loan fund, the conditions of its existence and its relation to capital values, cannot,

however, accept this as a true account of the doctrine. It is productivity theory at its best, defended with extraordinary ability.

That this doctrine of the loan fund is fully worked out Davenport does not claim. With the charming frankness that usually characterizes original thinkers, he says, of an important part of the doctrine, "It is merely offered by the way as the best that the present writer can at present accomplish" (p. 350). We may venture to predict that when the doctrine has been more fully worked out, it will relate the long time investment fund more clearly to thrift, and will, for the most part, confine to short time investments the loan fund "created" by banking practice. It is true that banks may "carry" bonds for a time, just as they carry mercantile paper, through an increase in their deposits. Or they may invest part of their reserves in bonds, which amounts to the same thing. But the bank's relation to the long time investment is usually little more than that of agent of placement. The great investment banks of France would hardly scatter branches throughout the communes, to gather up small *économies* for investment in Russian loans, if they could provide for the loans by mere creation of bank credits.

However loan and investment funds may originate, the volume available at any given time has an immediate bearing upon the price at which new capital offerings will be taken. This every financier realizes, and in his calculations as to the advisability of a new flotation, he attempts to form an opinion as to the extent to which the investment fund has been depleted by previous flotations. These facts and the conclusions consequent upon them can, of course, be squeezed into the mold of the time-value interest theory. Not, however, without serious prejudice to their real nature.

VII

In his final chapter Davenport draws together the threads of his argument and attempts to show the practical consequences deducible from it. Every man has a right to hang on his own Christmas tree gauds according to his own taste; but he cannot expect us to believe they grew there. The chapter begins with an enumeration of doctrines that in Davenport's opinion converge to make one stupendous error: (1) the doctrine of unproductive labor; (2) the guidance of the Unseen Hand; (3) Natural Law. These he proposes to destroy. The first of them, being already dead, is disposed of in a preliminary paragraph by a logical refutation. Yet one would say that an economist who defines wages so broadly as to cover the takings of a beggar at the street corner or those of a collector for a philanthropy whose agents keep all they get, should attempt to revive the distinction between productive and unproductive labor. And indeed it ought to be revived. Time was when all men, the economists included, knew how to distinguish between the employees in a man's shops, who help him to make his income, and the flunkeys and parasites in his house who help him spend it; when no insuperable difficulty was encountered in distinguishing between the working cattle that help to produce a crib of corn and the colony of rats that the corn inevitably attracts. To the economists of today they are all one. John Stuart Mill, through his attempt to found the distinction on the point of materiality and immateriality, put a spell upon us. We shall probably never see clearly again.

The "doctrine of the Unseen Hand" is, of course, the optimistic doctrine of the providential harmony of private and public interest. Many years ago Professor

Veblen stumbled across a passage in Adam Smith's *Theory of Moral Sentiments* which he rightly judged to be of great controversial effectiveness. The passage runs as follows: "The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, tho they mean only their own conveniency, tho the sole end which they propose from the labour of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus, without intending it, without knowing it, advance the interest of society, and afford means to the multiplication of the species" (Part IV, Ch. I).

A close examination of this passage and its context will show that it is a genial rendering of Mandeville's cynical paradox, "Private vices, public virtues," with a slight infusion of moral commonplaces from Horace. It is obviously from Adam Smith's pre-economic period; in his maturer years he would not thus have glorified wasteful consumption. The "invisible hand" is the hand that limited the capacity of the rich man's stomach. The expression is a mere figure of speech, with Adam Smith, just as "providence" usually is. So much for the real significance of the "invisible hand." Professor Veblen, with his keen eye for controversial values, however, pronounced this phrase the key to all orthodox economics, classical and modern.

With this key you can unlock every door in the economic temple. What you will see is that economics exists for the purpose of "justifying the works of God to man." Duplicates of this key are in the possession of all Veblen's disciples, and Davenport includes one of them among his Christmas tree ornaments. With it go other historical interpretations, of which one of the most curious is the statement that the Physiocratic school desired "accumulation rather of population than of wealth" (p. 507). Can it be that any one has forgotten what happened to the populationist Mirabeau when Quesnay fell upon him?

To describe all the decorations of this chapter would require too much space; let us confine ourselves to the solemn injunction to the economists to accept Davenport's definition of capital. "Economists will do well forthwith to recognize that rights of patent and royalty are capital; that rights of tribute through franchise privileges are capital; that police permits to rob passers-by are capital; that legislative authority to rob importers, both early and late, is capital; and that generally every basis of private acquisition is by that very fact capital" (p. 519). And suppose we fail to extend the meaning of capital to these limits, what disaster will befall us? We shall fail to recognize "that some of the capital is iniquitous and disastrous for social welfare as other of the capital is beneficent" (p. 529). This amounts to saying that if we continue to draw a distinction between productive and purely acquisitive capital, we shall be unable to see that the two are different, and mix up their fates in our prayers.

I have already indicated my estimate of the value of this book to the specialist in economic theory. When interest in theory revives sufficiently to make advanced courses in theory practicable in the colleges, it will

serve as a text hard to surpass. Certainly it has not at present its peer for variety and fruitfulness of theoretical discussions. An announcement by the publisher suggests that it is intended also as an elementary text. As there are all varieties of needs to be met by text-book makers, this work may in some cases be suitable for such use. But it will be a brave instructor that will put so spiny an object into the college sophomore's nosebag.

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